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NWR.L - Q4 2013 New World Resources Plc Earnings Conference Call

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PRESENTATION

Radek Nemecek - *New World Resources Plc - Head of IR*

Thank you. Good morning, everyone, thank you for joining us on this Conference Call to discuss NWR's Full-Year Results. We are joined today by our Executive Chairman, Gareth Penny, and our Chief Financial Officer, Marek Jelinek.

At the end of the presentation, we have reserved half-an-hour for questions from participants. May I also take this opportunity to remind you that this event is being recorded and that the recording will be made available on our website shortly after the presentation.

With that, may I invite Gareth to begin?

Gareth Penny - *New World Resources Plc - Executive Chairman*

Thank you, Radek, and good morning, everyone, and welcome to this results presentation. I want to start by giving an overview of the performance for the full-year 2013. I'll then hand to Marek, who will present in more detail in the financials, and then I'll conclude by outlining the outlook for the current year, along with further details of the capital structure review that we initiated on the 22nd of January, a review of our mineral reserves and resources, and an update of our 2014 targets and longer-term goals.

If we move, then, onto slide five, let me start by saying that obviously 2013 has again been a very challenging year and we have witnessed a prolonged and unprecedented global pressure on coking and thermal coal prices. Coking coal prices have continued to suffer from global oversupply, as companies have increased their production in order to bring down their costs per ton, while European steel manufacturers demand has also remained muted, as we'll note in a minute.

Thermal coal price continues to be affected by the fallout from the displacement of thermal coal by shale gas in the US, and this has led to increased volumes being redirected towards Europe. And a relatively mild winter so far has also not helped the situation in Europe, either.

This weakened pricing environment, which has seen our average coking coal price fall 22% year on year and our average thermal coal price fall 24%, together with the decline in production, are the principal drivers behind the 28% fall in revenues that you've seen from our results.

To help offset this weakened top line, however, we've made great strides towards lowering the overhead costs of the company in line with our stated strategy. Our mining unit costs on stable production were down 14%, and in Q4, on actual production reached EUR68 a ton, which was, I think, a very important milestone. And we remain on track now to get to the EUR60 a ton, which we've targeted for the end of this year, 2014. Furthermore, our selling and admin expenses have come down 26% to EUR165 a ton, which is encouraging.

The benefits of the successful execution of cost-saving initiatives launched in spring as part of our strategy to optimize our current operations are beginning to feed through, and we saw in the fourth quarter an EBITDA of EUR40 million, but as you will have noted, EUR28 million of that came from a release of provisions for employee benefits following the conclusion of the new collective agreement. These measures on the cost side, however, were not sufficient to offset the fact that for the full year we recorded an EBITDA loss of EUR10 million.

On the impairment, Marek will talk to this in further detail later on in this presentation.

If we move over then to slide number six, before going to the production and sales levels, I'm pleased to report that despite all these challenges that I've just described, our health and safety performance continues to improve, with the lost time injury frequency rate down a further 3% to 7.41 of lost time injuries worked per million man hours. We remain one of the safest deep-level underground mining operations in Europe and are on track for our lost time injury frequency target of 5 by 2015.

As you can see from this slide, slide six, our coal production for the year was 8.8 million, with external sales of 9.7, and with 48% of total sales being coking coal sales. Furthermore, we managed to contain CapEx with capital costs from continuing operations down 55% to EUR100 million, while also reducing excessive inventories of thermal coal by 70%, down to 380,000 tons.

Looking at steel production at the bottom-right-hand part of this slide, in the region, it is clear that our customers have also continued to operate in a very challenging environment. The chart on the right shows steel production in our customer markets basically flat compared to the previous year, and global utilization rate also flat at around 78%.

On slide seven, we note that last spring we targeted EUR100 million of cash-enhancing measures, which we successfully delivered by the end of the year. And this allowed us to stabilize our short-term position. At the same time, we concluded the sale of our subsidiary OKK, raising EUR95 million of proceeds, which has also allowed us to become a more efficient and focused mining business. Furthermore, OKK will continue to purchase the majority of its coking coal needs from OKD on an arms-length basis.

Other measures taken to improve the company's liquidity and optimize current operations included an agreement on waivers and amendments on the ECA facility, the successful negotiation of a new five-year collective agreement with trade unions, and the signing of a memorandum of understanding with the Czech government regarding the closure of Paskov mine.

So all in all, a very, very difficult market impacting hugely on the top line, but significant measures within the company's control that have been taken to mitigate circumstances. With that, let me hand over to Marek, who will take us through more detailed financials.

Marek Jelinek - *New World Resources Plc - CFO*

Thank you, Gareth, and good morning, everyone. Thank you for joining the call.

Looking at the P&L on page nine, Gareth has talked to the pricing environment, which has really driven the top line. I'll speak in a minute about the developments in isolation in thermal coal and in coking coal, but to move on to the costs, over the last 12 months, the total cost of sales were down 8%, which however has been impacted by the aggressive sell-down of inventories. The inventory tonnage is down by about 70%.

Now, stripping out the inventory impact from the cost of sales development, you get to a decline in cost of sales of 19%. I think this clearly demonstrates our ongoing focus on cost containment and optimization of the Czech mining operation. The same trend has shown in the selling and admin expenses, which were down 26% in 2013.

The negative EBITDA for the year of EUR10 million really reflects the unfavorable development in the coal pricing environment. And, of course, the impairment that we recorded is a non-cash accounting adjustment to the carrying value of fixed assets. It's motivated by the principle of allying the carrying with the fair value.

We also recorded an income tax benefit of EUR146 million, which implies an underlying loss of EUR230 million for the year. Our net cash flow from operations was negative for the period, but we have seen an improvement in this item over the course of the year, and we remain committed to further improvements on costs and ultimately cash generation.

Finally, you can see a continued focus on CapEx, with CapEx for the year ending at EUR100 million, which is exactly in line with the target, and it's about 55% down on the prior year.

Moving on to a bit more detail on the pricing environment, on slide 10 -- and I think the left-hand chart really says it all -- the increased supplies in coking coal in our local market, which combined with relatively meager demand from European steel manufacturers, has resulted in the ongoing downward pressure on coking coal prices. This led to an average realized coking coal price of EUR98, which coincidentally applies for both the fourth quarter and the full-year 2013 average, and it's a drop of 22% year on year relative to the year 2012.

We have seen this downward pressure on prices continuing into 2014. We have contracted for the first quarter of 2014 at EUR91 a ton, which another 7% decrease relative to the last quarter of 2013.

In thermal coal, we see similar trends. The development in the North American energy mix led to increased supplies of thermal coal into Europe. And also, we've seen excessive thermal coal stockpiles in Central Europe. This has led to an average realized price of thermal coal for 2013 at EUR56 a ton, which is a 24% decline relative to the prior year.

The price that we agreed for the calendar year 2014 is even lower, at EUR54 a ton. And just a reminder, this covers 80% of the expected production and sales of thermal coal in 2014. And finally, on thermal coal, the relatively mild winter so far in Europe is clearly not helping the thermal coal pricing environment.

Moving onto slide 11, which shows the key factors influencing the EBITDA development from EUR210 million positive in 2012 to EUR10 million negative in 2013. As you can see, the ongoing focus on costs has added close to EUR200 million to EBITDA, but unfortunately there was not nearly enough to offset the rather precipitous drop in both coking and thermal coal pricing. And that resulted in -- the pricing impact alone is about EUR216 million negative impact on EBITDA in the year-on-year comparison.

Looking at the two coal categories in isolation on page 12, you can see that our coking coal revenues were down 34% year on year, which is a combination of a 16% decline in tonnage and a 22% decline in the average coking coal price.

Thermal coal revenues has seen a decline of 18% to EUR284 million. This is a combination of a 24% drop in prices, which was only partially offset by a 7% increase in sales tonnage. The increase in sales tonnage was really a result of our aggressive sell-down of inventory. Again, inventory tonnage is down about 70% year on year.

The relative increase of our cash mining unit costs to EUR78 a ton is really a result of a 21% drop in production. If you adjust the unit cost number to arrive at a stable production basis, the implied development in cash costs is a 14% decline in cash costs, again, I think a very clear result of our cost control. And just to repeat, selling and admin expenses were down about 27% to EUR153 million.

An update on our financial position on slide 13. We generated a gross cash flow from operations of EUR18 million. We paid EUR60 million in interest and taxes and spent EUR109 million on CapEx. Just to reconcile this EUR109 million with the EUR100 million that I mentioned previously, the EUR9 million was CapEx spent in the coke operations, which were treated as discontinued operations due to the ongoing sale. And so the EUR100 million is CapEx in the remaining coal business; EUR9 million was spent in the coke segment.

Net debt at the end of December 2013 was EUR625 million, which includes EUR184 million of cash. Importantly, our cash balance in the fourth quarter increased by EUR36 million, principally due to the inflow -- or the proceeds from the sale of the coke business. Also, please note that we repaid EUR21 million of the ECA loan as a part of the reset of -- or the agreement on the covenant holiday that we reached in December last year.

This, I think, is a quick summary of the financial aspects of the results announced this morning. And I'd like to now hand back to Gareth to talk to the ongoing capital structure review and the update on mineral reserves.

Gareth Penny - *New World Resources Plc - Executive Chairman*

Marek, thank you very much.

And if we move onto slide 15, you know, looking ahead at this year, it's clear that we are continuing to be in, you know, one of the toughest environments that the industry has experienced. Marek has already mentioned that we have agreed coking coal prices of EUR91 for the first quarter, which represents a 7% decrease on the realized price in the fourth quarter, and more than a 50% decrease from 2011 price levels, and a EUR54 a ton for 80% of our expected thermal coal for this calendar year, a 4% decline on the full-year 2013.

Against this backdrop, our operational targets for the year remain broadly unchanged. We plan to produce between 9 million and 9.5 million tons of coal production this year, and we are on track for this at the end of January. We envisaged that between 55% and 60% of this will be coking coal. We want to achieve a run rate by the end of the year of EUR60 a ton for the cash mining costs, so that's down from EUR68 a ton at the end of last year. We intend to maintain our maintenance CapEx at around EUR100 million, and as I mentioned earlier, in terms of lost time injury frequency rate, we want to trend down towards the five that we've set for next year as the target.

With regard to Paskov mine, we are currently in dialogue, constructive and fruitful, with the Czech government to explore the possibility of keeping this mine open beyond the end of this year. Final decisions have not yet been made, but -- and will continue through to March, and we will keep the market informed of progress as we go about things.

If we turn to slide 16, as you're aware, on the 22nd of January, we announced a review of our mineral resources and reserves. And at that time, we signaled to the market that we expected a significant decrease in our reserve base.

Of course, as we are aware, resources, whether they be measured, indicated or inferred, is the coal in the ground, and that figure is some 2.2 billion for the company. But what is more relevant is what portion is formed of reserves which are proven and probable and which, of course, are the economically mineable portion of our resources.

We have had a review conducted by two third parties, namely JT Boyd and IMC. For our Czech mines, JT Boyd has reported on a preliminary basis a total of 64 million tons of JORC reserves as of the 31st of December, 2013. This represents a 65% decrease from the JORC reserve estimate at the point 31 December 2012. And this decrease clearly is mainly due to the downward adjustment in long-term coal prices, as depicted in the chart that you see in the upper-left-hand corner.

For our respective blends of coking and thermal coal, we are currently using prices of EUR108 per ton for coking and EUR57 per ton for thermal in terms of our projections. In this context, we've updated our life of mine plan. This life of mine plan, given the uncertainty surrounding the discussion on Paskov, excludes the Paskov mine after 2014. It excludes part of the Karvina expansion project and Debiensko.

In the revised life of mine plan, the annual production declines progressively over the coming 10 years from the 9 million to 9.5 million tons that I mentioned earlier to around 4 million tons by 2021, and beyond 2023 to around 2 million tons per annum.

Lastly, just a note on the Debiensko project. The feasibility study continues on that and should be completed by the end of March. IMC are currently preparing a revised mineral resource and reserve report, and it's probable that a significant portion of the reported reserve for Debiensko will be downgraded to a resource, principally due to, in the first instance, obviously, a changed assessment of forward market prices and, secondly, because of a revised JORC requirement that needs to be taken into account for closer drill hole spacing, which we intend to do during the course of this year.

Let me then say a few final words about the capital review that we initiated on the 22nd of January, and if we can turn to the next slide in this regard. The current pricing weakness of the global coal market and its negative impact on the economic viability of our reserve base, along with the expiry of the revolving credit facility and, obviously, the market conditions that we're now facing prompted a review or has prompted a review of our capital structure.

The principal objective is to ensure that an appropriate capital structure is in place to support the continuing development of the business. As we've said publicly, our major shareholder, BXR Mining, has indicated its willingness and that of its shareholders to insert new capital into a revised and satisfactory capital structure.

We are leading constructive discussions with all our stakeholders, including the major shareholder and a joint ad hoc committee of holders of the 2018s and 2021 notes. This ad hoc committee comprises three -- all three holders of the 2018s, cross-holders of the 2018s and 2021s, and holders with primarily interest in the 2021s only.

There is no set timetable for the review, and further announcements will be made via customary regulatory channels as we go. In the meantime, however, NWR will conduct its business as usual and remains focused on implementing its previously announced efficiency and cost optimization measures, which I would like to conclude with on slide 18.

You've seen this slide before showing the three strategic initiatives of the business. But clearly, given the pricing environment that we have been facing, optimizing the current operations has been our major area of focus. Now, it's not for me to call the bottom of the market, but what I can confidently say is that when this recovery comes, I believe we will be well placed to benefit from it and emerge from this very difficult period as a competitive player on the European hard coal market. And this will be in no small measure through addressing proactively the various issues that we've been facing.

If we look at this slide, you'll see the third -- in blue the focus that we've brought in optimizing the operations, and I've spoken to these already, the focus on getting unit costs down to EUR60 a ton, improving the mix, because obviously we had a much richer price for the coking coal segment of our production, keeping our maintenance CapEx at EUR100 million or below, and making sure that we continue to improve our safety record. So that remains a key focus through the course of 2014.

But the second pillar of the strategy remains to increase the amount of coking coal supplied by NWR to the European market and to address this through a combination of mining projects like Debiensko and new marketing initiatives.

The third pillar that completes the strategy is to offer a full range of coking coal qualities to our existing and expanded customer base and involves a one-stop shop for coking needs of European steel producers. Clearly, given the focus and the imperative of getting the operations right, I'm sure you will understand that the other two initiatives have been somewhat on the back burner during 2013, but more and more of our attention will be directed to these during the course of this year.

And with that, I'd like to hand back over to Radek.

Radek Nemecek - *New World Resources Plc - Head of IR*

Thank you, Gareth. I said in the introduction we have reserved 30 minutes for questions. We do understand that you have a lot of questions about the capital review process that we announced recently. However, we are not in a position to share more information than we have provided in the press release and this presentation. I would also like to ask you to limit the number of questions at maximum two per person.

Operator, we are now ready to take the questions.

QUESTIONS AND ANSWERS

Operator

Okay, thank you. (Operator Instructions). We will take our first question today from Michael Boam from Claren Road Please go ahead.

Michael Boam - *Claren Road - Analyst*

Hi. I know that you're not taking questions on the restructuring, but it seems to me that at the current run rate, even if you have fully equalized all the bonds, the business would still be burning significant cash. Are BXR, therefore, in the thinking, assuming that there will, at some point, be a rebound in the market, in order to push ahead with a restructuring rather than a liquidation of the business.

Marek Jelinek - *New World Resources Plc - CFO*

Hi, Michael. Thanks for the question. First of all, I, you know, really cannot speak for BXR. I think, you know, any questions to BXR should be addressed to them. But I -- maybe this addresses your point a little bit. There clearly are two initiatives that are happening in parallel and have to happen in parallel. One is the -- you know, addressing the capital structure, and, again, we are early in the process. We cannot really, you know, talk about any specifics. But the second clearly is an operational reorganization at the Czech mines, at OKD, towards the, you know, run rate of EUR60 a ton and CapEx of below EUR100 million. At those levels, OKD has a fully sustainable business within the framework of the updated life of mine plan and the reserves that we talked about earlier.

Michael Boam - *Claren Road - Analyst*

Okay. My second question would be, in terms of your trade credits, clearly you've had substantial inflows last year as a result of that. Have you seen any of that reverse at all as a result of the announcement that's been made on -- with respect to the restructuring of the business?

Marek Jelinek - *New World Resources Plc - CFO*

No, we have not.

Michael Boam - *Claren Road - Analyst*

Okay, thank you very much.

Marek Jelinek - *New World Resources Plc - CFO*

Thank you.

Operator

Thank you. We will now take our next question from [Dennis Acko] from [BC]. Please go ahead.

Dennis Acko - *BC - Analyst*

Hi. I have two questions. I just want to follow up from what Mike just asked. How many months of liquidity would you say the business actually has right now, assuming no further asset sales or capital injections? Is it fair to say it's less than 12 months?

Marek Jelinek - *New World Resources Plc - CFO*

No, it's certainly more than 12 months.

Dennis Acko - *BC - Analyst*

So we're saying 12 to 24 months?

Marek Jelinek - *New World Resources Plc - CFO*

Let me say, you know, to answer that question, you know, you need to define a price level at which you are defining...

Dennis Acko - *BC - Analyst*

At current prices.

Marek Jelinek - *New World Resources Plc - CFO*

At current prices, yeah.

Dennis Acko - *BC - Analyst*

At current prices, what do you think? It's around the ranges 12 to 24 months?

Marek Jelinek - *New World Resources Plc - CFO*

You know, I'm not going to speculate on an actual number, but it's more than 12 months.

Dennis Acko - *BC - Analyst*

Okay. Will you be able to get a going concern statement from your auditors?

Marek Jelinek - *New World Resources Plc - CFO*

I think so.

Dennis Acko - *BC - Analyst*

Okay. So my second question has to do with the reduction in reserves. What do you estimate the environmental liabilities, the redundancy costs, the mine shutdown costs for not only Paskov, but, you know, for the other mines, for bondholders to have a sense for what these liabilities would be? Because the rationale is, they're structurally senior, so they would need to be taken into account in any DCF valuation of the mine to calculate the potential recoveries in value available to the bonds pre-new money, but obviously post-new money, the stake would be diluted, which kind of leads to the other question, is how much new money do you think would be necessary to actually operate the mines for the next seven years or whatever you estimate the reserves to be?

Marek Jelinek - *New World Resources Plc - CFO*

Right. On the liabilities, I mean, clearly any mine is -- has a finite life. And there's a cost associated with the end of that life. We have a pretty detailed studies and estimates for the Paskov mine, which, of course, is a big topic at the moment. We estimate that a shutdown of the Paskov mine would cost approximately EUR50 million, all in, including technical liquidation, restoration liabilities, and social- and labor-related costs, and that's a number that I think you can use as a guideline for the other mines. But we are, you know, currently not in the process of shutting down any other mines, so the number for Paskov is one that's up to date.

Dennis Acko - *BC - Analyst*

Okay. But if you're -- if the business is burning cash at current levels, then how much money would you need to actually realize or to be able to operate for the next seven years, based on current prices?

Marek Jelinek - *New World Resources Plc - CFO*

Once we get to a point at the end of this year where we operate at EUR60 a ton of cash costs and a capital budget of below EUR100 million, the company -- the operations are fully sustainable and can run, you know, again, in the current pricing environment for a long time.

Dennis Acko - *BC - Analyst*

Okay, thank you.

Operator

Thank you. Our next question today comes from Gerald Lucaussy from [OBCAP]. Please go ahead.

Gerald Lucaussy - *OBCAP - Analyst*

Yes, hello. On Paskov, you mentioned that the liability is EUR50 million, so I think the last slide shows EUR5 per ton of unit costs adding to produce EUR1 million per ton per annum. So is it fair to say that if you were to keep it open for two years, your cost is EUR10 million, or your marginal cost is EUR10 million, versus a closure cost of EUR50 million that the government may assume for EUR1? Is that the way to read it?

Marek Jelinek - *New World Resources Plc - CFO*

The all-in costs -- so the cash costs, indeed, are -- you are right about the cash costs. The all-in, let's say, EBITDA impact of operating the mine in the current pricing environment is about EUR10 million per year, not per two years. And, you know, the debate with the government, I think, is very constructive at the moment, but I hasten to add that we do not have a final agreement, so, you know, I don't know that I can sort of, you know, put a number on what the agreement will do to the government or the local community or the company.

Gerald Lucaussy - *OBCAP - Analyst*

Okay.

Operator

Thank you. Our next question comes from [Sergey Luti] from Deutsche Bank. Please go ahead.

Sergey Luti - *Deutsche Bank - Analyst*

Hi, thanks for the call, gentlemen. The Paskov mine I had was answered, so just a very brief one. Assuming that the capital restructuring will take, let's say, between five to six months, is it still your plan to be paying the coupon on the senior secured bonds coming in May 1st?

Marek Jelinek - *New World Resources Plc - CFO*

The restructuring is in very, very early days. So, you know, we can't really, you know, speculate on where it will go. As for coupons, you know, those are, you know, contractual commitments by the company. And we fully intend to honor our commitments.

Sergey Luti - *Deutsche Bank - Analyst*

Okay, thanks very much.

Operator

Thank you. Our next question today comes from Leonie Morel from Goldman Sachs. Please go ahead.

Leonie Morel - *Goldman Sachs - Analyst*

Hello, and thank you for taking my questions. My first question would be just to follow up on the reserves. So you indicated that by 2021 product sharing would decrease to 4 million tons per year based on the current reserve estimates. By what quantum would you need to adjust your cost structure to make that happen? And what would be the cost of doing that?

Gareth Penny - *New World Resources Plc - Executive Chairman*

Leonie, it's Gareth. I'll take this. So what we've -- as you say, what we've said is that for next -- for this year, we estimate around 9 million to 9.5 million tons. That will gradually trend down to a figure around 4 million tons over the next years until about 2021.

Clearly, the challenge in doing that -- and that's the bit that I think we're getting more confident and getting the right kind of culture in the organization, because it means that if you're going to retain your cost per ton, you've got to simultaneously be bringing down your overhead cost and making sure that your operations are such that you can continue to deliver on that to make true what Marek said earlier, so -- and that includes, you know, trending down your CapEx, as well.

So all of that would need to be part of how we operate in the years ahead. And I think we've shown that we can do that through 2013 and into 2014. But what I do want to just flag is obviously the life of mine plan and the reserves are being done under current market circumstances. So when you do an estimate like this, the definition of reserve is an economically mineable resource. And in doing the assessment, JT Boyd obviously takes account of what the current consensus outlook is on pricing, and one puts that into one's models in terms of developing a life of mine plan. So that is what we have done.

Leonie Morel - *Goldman Sachs - Analyst*

Okay, thank you. And just to follow up on that, how sensitive are the reserves estimates to the current prices? So when you look at the reserves today, are there some areas of the mines where the cash cost is significantly lower and you would be comfortable that this will still be profitable in the lower coal environments? And at the same time, if you look at the overall coal environment and you assume another 15% decline, how much, I think, would the decline -- the reserves need to be adjusted?

Gareth Penny - *New World Resources Plc - Executive Chairman*

Yes, well, it's why I started by making the point that our resources, you know, are measured in billions, in terms of tons in the ground, so physical tons of coal in the ground, you know, we have taken out 64 million tons of coal in the last five or six years. So, you know, the amount of coal in the ground is hugely significant.

But as you say, Leonie, obviously, any life of mine plan is very sensitive to price. And with the reduction that we've seen in one year of 24% for coking coal -- 22% for coking coal and 24% for thermal, it would be more than extraordinary if the reserve estimate at the end of this last year was the same as it was a year ago. It simply couldn't be, because you've now got to dial that number, that new number of current prices and current forecasts into your model to determine that which is economically viable.

So, yes, it is sensitive to pricing. I can't give you a number to say if prices went up X, your reserves would go up Y. I mean, it isn't done like that, and it's far more complex. But clearly there are deep seams, there are narrow, thinner seams that could be mined in a different pricing environment. That goes without saying. And, you know, one will look at this now annually and recalculate what is an appropriate level of reserves, given the current market environment.

Leonie Morel - *Goldman Sachs - Analyst*

Okay, thank you. And just wanted -- the revised PPE number, would you be able to give us a breakdown between the equipment, the plant, and the reserves?

Gareth Penny - *New World Resources Plc - Executive Chairman*

We couldn't hear that question, Leonie.

Marek Jelinek - *New World Resources Plc - CFO*

No, it was probably plant and equipment. There's a -- in the OFR, there's a full balance sheet, so you can have a look.

Leonie Morel - *Goldman Sachs - Analyst*

Okay, thank you.

Operator

Thank you. Our next question comes from Matt Farwell from Imperial Capital. Please go ahead.

Matt Farwell - *Imperial Capital - Analyst*

Hey, good morning. Could you give us an idea of how you can achieve the EUR60 per ton cash mining cost in 2014, while keeping the Paskov mine open? Are there -- can you give us a little breakdown or a little more color on the steps to achieve that new mining cash cost?

Gareth Penny - *New World Resources Plc - Executive Chairman*

Yes, I mean, just to be clear, so we are saying that we would get to EUR60 ton by the end of the year. So we are -- that number would be compared with the EUR68 that we are now, so for the year as a whole, we would probably be more like EUR65 on average for the year.

Where there is -- I mean, there needs to be a footnote is it does depend on where we come out in our discussion on Paskov, because there's probably something like EUR3 a ton incremental to the EUR60 in terms of the number that Marek mentioned that would be, you know, over and above that for Paskov, if we're not able to find further economic ways of mining that ore body.

But -- so let's say that the number would be somewhere between EUR60 and EUR63 a ton, depending on the outcome of Paskov.

Matt Farwell - *Imperial Capital - Analyst*

And are you at all in discussions with the Czech government towards any kind of support while it's in operation? Or is -- at this point, the MOU only relates to the transfer of the retirement liability once it's closed?

Gareth Penny - *New World Resources Plc - Executive Chairman*

It's the latter. So we haven't had discussion around support while we were doing this, and, you know, the -- but I think the important thing is that these are still open negotiations. So, you know, at this stage, we can't give you a definitive position.

Matt Farwell - *Imperial Capital - Analyst*

Okay. Thank you very much.

Operator

Thank you. Our next question today comes from Navann Ty from Bank of America. Please go ahead.

Navann Ty - *Bank of America/Merrill Lynch - Analyst*

My question has been answered. Thank you.

Operator

Okay, thank you. Our next question, in that case, comes from Julien Raffelsbauer from BNP Paribas. Please go ahead.

Julien Raffelsbauer - *BNP Paribas - Analyst*

Yes, good morning. If we take your new long-term price forecast for coking coal of EUR108 and the cash cost at EUR60, what kind of EBITDA you think you could achieve?

Marek Jelinek - *New World Resources Plc - CFO*

Well, so this is relatively easy to reconstruct. So take -- you know, say, the mid range of, say, 9.25 million tons times EUR60 is your total OpEx. And you can assume, you know, in the long run, a roughly 50/50 split between coking coal and thermal coal...

Julien Raffelsbauer - *BNP Paribas - Analyst*

Yes.

Marek Jelinek - *New World Resources Plc - CFO*

... long-term price of coking coal EUR108, long-term price of thermal, I think, I would simply assume that it doesn't move from here, and you get your number.

Julien Raffelsbauer - *BNP Paribas - Analyst*

And how much will be the SG&A per ton? It will be the same?

Marek Jelinek - *New World Resources Plc - CFO*

It will be around -- yeah, it's around EUR8 today.

Julien Raffelsbauer - *BNP Paribas - Analyst*

EUR8?

Marek Jelinek - *New World Resources Plc - CFO*

Yes.

Julien Raffelsbauer - *BNP Paribas - Analyst*

EUR8. So you got more or less EUR80 per ton in terms of revenues and then EUR60 OpEx and EUR8 SG&A?

Marek Jelinek - *New World Resources Plc - CFO*

Yes.

Julien Raffelsbauer - *BNP Paribas - Analyst*

That's the math, okay. And for the CapEx, so if you reduce -- cut your production from 9 million to 4 million, is it fair to assume that the CapEx should decrease, the EUR100 million CapEx that you have at the moment?

Marek Jelinek - *New World Resources Plc - CFO*

Yes, it will gradually decrease roughly in line with production, although it's not -- you know, there's a lag, so it doesn't happen in sync, but clearly, maintenance CapEx is going to go down roughly in line with the production decline.

Julien Raffelsbauer - *BNP Paribas - Analyst*

Production. And as we're -- last question. In your balance sheet at the end of full-year 2012, you have into the provision the number of 158, which are the mine restoration costs, which I think show how much you need to spend if you were to close both mines. So if you decrease production from 9 million to 4 million, we should assume that part of the 158 will be spent in cash to restore -- the mine will be closed in the meantime?

Marek Jelinek - *New World Resources Plc - CFO*

Yes, that's correct.

Julien Raffelsbauer - *BNP Paribas - Analyst*

Okay. And the 158 million is a number you're comfortable with?

Marek Jelinek - *New World Resources Plc - CFO*

Yes.

Julien Raffelsbauer - *BNP Paribas - Analyst*

Yes, okay. Thanks very much.

Marek Jelinek - *New World Resources Plc - CFO*

Thank you.

Operator

Thank you. Our next question comes from Robert Slater from Silver Rock Financial.

Robert Slater - *Silver Rock Financial - Analyst*

Hi. Could you remind us again what your current unfunded pension liability is and how that is split up between the Paskov mine and the others?

Marek Jelinek - *New World Resources Plc - CFO*

Our pension liability is zero. Czech Republic has a fully state budget-funded pension system.

Robert Slater - *Silver Rock Financial - Analyst*

So when I look on your balance sheet and you have the employee benefits liability of 49.3, could you dimension that for us, then?

Marek Jelinek - *New World Resources Plc - CFO*

Yes, what you're asking about the employee benefits, right?

Robert Slater - *Silver Rock Financial - Analyst*

That's right.

Marek Jelinek - *New World Resources Plc - CFO*

Yes, that's -- so, first of all, what it is, this is an actuarial calculation that tries to, you know, take statistics to estimate future value of employee benefits. These benefits, however, are not -- this is not pensions. This is things like, you know, rehabilitations, spa treatments, meal vouchers, things of this nature.

Robert Slater - *Silver Rock Financial - Analyst*

Okay, second question. Are you able to provide on this call a contact for the bondholder steering committee, so other bondholders can reach out and organize?

Marek Jelinek - *New World Resources Plc - CFO*

There is -- I mean, I don't have it in front of me, but I'm sure we can. Radek, can you provide that after the call?

Radek Nemecek - *New World Resources Plc - Head of IR*

Yes.

Marek Jelinek - *New World Resources Plc - CFO*

Yes.

Gareth Penny - *New World Resources Plc - Executive Chairman*

Put that on our Web site.

Radek Nemecek - *New World Resources Plc - Head of IR*

Yes.

Robert Slater - *Silver Rock Financial - Analyst*

Okay, thank you.

Operator

Thank you. Our next question comes from Christian Hanson from INT Asset Management. Please go ahead.

Christian Hanson - *INT Asset Management - Analyst*

Hi, guys. Yes, please, put some info on the Web site for bondholders, would be nice. My questions -- I have two...

Marek Jelinek - *New World Resources Plc - CFO*

We'll make sure that you get it separately, but it's already there. It's been there since January 22nd.

Christian Hanson - *INT Asset Management - Analyst*

Okay. Sorry for not seeing that.

Marek Jelinek - *New World Resources Plc - CFO*

That's fine. Radek. will send you an e-mail with that.

Christian Hanson - *INT Asset Management - Analyst*

I'll appreciate that very much. Yes, my questions -- I have two -- could you -- do you have any feeling of how the European cost curve look like also in regard to where you guys are at current prices? You know, at what levels are they producing sort of in general terms?

Marek Jelinek - *New World Resources Plc - CFO*

I think that the -- really, the relevant -- I mean, you know, there's not much underground mining in Europe, as you know. The (inaudible) is in Poland, the Polish mining industry.

Christian Hanson - *INT Asset Management - Analyst*

Exactly.

Marek Jelinek - *New World Resources Plc - CFO*

There is a very wide range, though, of cost profiles. You go from -- you know, for example, Bogdanka is a thermal coal miner, which I believe last time I saw it, it was about EUR40. That's really because they operate in a much, much shallower environment and with a -- sort of relative to us, luxury is geology. If you look at the Silesian mines, I believe on a comparable basis we are probably at about 10% to 15% cheaper than them.

Christian Hanson - *INT Asset Management - Analyst*

Okay.

Marek Jelinek - *New World Resources Plc - CFO*

I mean, if you try to do that, it's not an easy comparison.

Christian Hanson - *INT Asset Management - Analyst*

I know, but still...

Marek Jelinek - *New World Resources Plc - CFO*

Yes.

Christian Hanson - *INT Asset Management - Analyst*

Okay, thank you. And then in regard to the life of mine plan, the model that JT Boyd uses, does that account for your mining unit costs of next year of around EUR60? Or how does that work?

Marek Jelinek - *New World Resources Plc - CFO*

Yes, it's based on our updated long-term model, which reaches EUR60 a ton in 2015.

Christian Hanson - *INT Asset Management - Analyst*

Okay, so it -- so it does take account of lower unit costs.

Marek Jelinek - *New World Resources Plc - CFO*

Yes, correct.

Christian Hanson - *INT Asset Management - Analyst*

Okay, thank you.

Operator

Thank you. We will now take our next question from Samir Patel from Lazard Capital Markets. Please go ahead.

Samir Patel - *Lazard Capital Markets - Analyst*

Hi. First question is just to double-check the EUR108 per tone coking coal price and the EUR57 per ton thermal coal price, is that -- those are the prices that you used to come up with this review of your mineral resources?

Marek Jelinek - *New World Resources Plc - CFO*

This is a long-term average price that, yes, we have used as a principal input in the coal reserve calculation.

Samir Patel - *Lazard Capital Markets - Analyst*

Okay. Well, it is pretty alarming, given that this will probably be central to the actual restructuring talks you have coming up. In regards to that, as well, you obviously sound quite optimistic in -- at the earlier stage of this call regarding the long-term future of this business. If we are to assume this is true, then you would have to have a certain amount of catch-up CapEx that would be involved in the longer run. So in terms of new money discussions, have you got some sort of number where catch-up CapEx would have to be as part of those proposals?

Marek Jelinek - *New World Resources Plc - CFO*

Look, this is, again, about the capital structure and its pending review. We really are not in a position to discuss that in detail, other than to say that our key principle in managing this process is to make sure that all stakeholders are treated fairly and equally. But, you know, in terms of actual numbers or potential outcomes, first of all, it's way too early to discuss that. And, second, we just would not do that.

Samir Patel - *Lazard Capital Markets - Analyst*

Okay, let me ask the question another way then. What is the number of quantum amount for CapEx that you have kept aside last year and this year that would need to be done at some point?

Marek Jelinek - *New World Resources Plc - CFO*

Let me try to answer this way. I think, you know, if you look at the -- I guess the global coal mining industry everywhere, I think we've had a good run until relatively recently, and I think we all got, unfortunately, used to the rich times, and we got used to very CapEx budgets.

We are -- we are all now in a period of rapid adjustment and are bringing -- you know, are getting down with sort of both feet firmly on the ground, including what we can afford to spend on capital. So, yes, there was a bit of CapEx deferral last year, but it's not a dramatic number. We do not see our future in sort of EUR200-plus million a year of CapEx spending. That's just not the environment that we live in.

Samir Patel - *Lazard Capital Markets - Analyst*

Okay, you know, obviously I can appreciate the bull market day in the coal market is long gone, but these mines are getting older, so how can you -- going forward, there must be some sort of element where more money will be needed to extract a greater volume of goal from these mines that are getting older.

Gareth Penny - *New World Resources Plc - Executive Chairman*

[Christian], I -- I mean, maybe I can help you. You know, in our base-case model, as we assume the downward trend of production, we have assumed in it an appropriate level of capital to mine that reducing amount. If, however, coal prices improve and, you know, one could find other reserves, et cetera, that required additional capital to be spend, they would have to be justified against additional revenues that you would then add into your business plan.

Though, you know, there's not going to be additional capital you would spend that wouldn't reflect on both the top line and the bottom line, but in terms of the model and the way it's built now, as we trend down in production, we trend down in CapEx, and there is built in sufficient CapEx to mine the tonnage that we are guiding on this call.

Samir Patel - *Lazard Capital Markets - Analyst*

Okay. All right, thank you. And then just, obviously, the last question is, in your press release, you mentioned that the review for Debiensko is still going on. Is there some sort of expected time that that will come out?

Gareth Penny - *New World Resources Plc - Executive Chairman*

Yes, we should have that completed by the end of March. We are doing a very extensive review, as you would imagine, with the changing circumstance. We remain committed to that project. Because it hasn't been completed, we have not been able to include the reserve element of that project into these figures, and I think that's been clearly shown on one of the slides.

At the point that we do conclude the pre-feasibility study, we will include whatever portion of that can be properly delineated as a reserve and the balance will form part of resource. But, you know, at this stage, we remain committed to the project. We still see it as part of our long-term future. And the work is ongoing.

Samir Patel - *Lazard Capital Markets - Analyst*

Okay, thank you.

Operator

Thank you. Our next question comes from John Stipanovich from Citigroup. Please go ahead.

John Stipanovich - *Citigroup - Analyst*

Hi there. Thanks for taking my questions. You kind of spoke to this before, but whenever we trend towards that kind of 4 million ton level, you know, you said the challenge will be to lower your unit costs, as well. What do you budget or what's kind of the range that you think unit costs would be at that level of production?

Gareth Penny - *New World Resources Plc - Executive Chairman*

John, I mean, I just -- all I would say is, if you've -- I mean, I think Marek's taken us through the basic assumptions. They would all have to hold true. Otherwise, if they don't, you know, you would make significant loss.

So, you know, the numbers are fairly straightforward, I think. You know, if you're assuming the kind of price curve that we've put forward, you're going to have to be able to maintain the kind of unit costs of EUR60 to EUR65 a ton, if you're going to make -- if you're going to make the thing work.

John Stipanovich - *Citigroup - Analyst*

--

Gareth Penny - *New World Resources Plc - Executive Chairman*

That means you've got to build in sufficient flexibility in the way you operate, et cetera, to be able to continue that.

John Stipanovich - *Citigroup - Analyst*

Okay. And switching to something else, just as you are doing this review and having discussions, will you go back to your unions as part of this? Is that something that's being contemplated, to ask for more? And also, are you having any discussions with your customers? Is there any, you know, form of support that can come there through pricing or whatever it might be?

Gareth Penny - *New World Resources Plc - Executive Chairman*

So, you know, we -- I think we have a good agreement with the union. We said that that was a more or less than 8% reduction part in numbers employed and part in the fact that certain benefits, like statutory holiday bonuses had been removed and so on.

The benefit of those was not felt in 2013, because that agreement -- the existing agreement was through until the end of last year, and therefore, these new arrangements have only kicked in now. So that's one of the reasons why you will see the EUR68 per ton figure coming down, because you'll start to see the benefits of lower costs.

You know, this has to remain an ongoing dialogue. But, you know, we feel that we have a sufficiently good relationship where, you know, the needs of all the various parties can continue to be discussed.

In terms of our customers, obviously, their businesses have also gone through very difficult times, and we have to remain market-related in the prices that we ask from them. So, you know, those discussions continue quarterly. I can't tell you now what will happen in the second quarter. But I think we have good relationships with our customers. We are their supplier of choice in many instances. And, you know, I think it's in everybody's interest that those good relationships continue.

John Stipanovich - *Citigroup - Analyst*

Okay, all right, thank you very much.

Marek Jelinek - *New World Resources Plc - CFO*

Operator, are there any more questions, please?

Operator

Oh, pardon the interruption, sorry. I was on mute. Yes, our next question comes from [Mayan Grater] from Black Diamond. Please go ahead.

Mayan Grater - *Black Diamond - Analyst*

Great. Thank you very much for the presentation. I had a couple of questions on your long-term plan assumptions. Could you just remind what your assumptions as of the December 2012 resource valuation were and so how that's actually changed, what you've just presented today?

Marek Jelinek - *New World Resources Plc - CFO*

There are two main changes. One is the pricing outlook, which I don't have the number in front of me, but I think the -- what we generally do in the long-term model is basically take market consensus pricing as the long-term assumption. I believe that the consensus pricing between the end of 2012 and the end of 2013 has dropped on coking coal by about EUR45 a ton. I think that that's about right.

And the other key -- so it's actually a couple of key assumptions. One is on CapEx, and the other one is on cost. We talked about costs. The target is EUR60 next year and CapEx, obviously, below EUR100 million per annum. And those are the three main differences.

Mayan Grater - *Black Diamond - Analyst*

So what were your cost assumptions in the previous plan, if it wasn't EUR60? Was it closer to the EUR80 mark?

Marek Jelinek - *New World Resources Plc - CFO*

No, I think it was -- back then, it was around EUR70, I believe.

Mayan Grater - *Black Diamond - Analyst*

Understood. And just remaining on cost per ton, I mean, on page 12, you show the average cost per ton being EUR78 per ton based on 2013 volumes and EUR61 based on stable 2012 assumed volumes. I mean, the delta there is EUR17 million per ton. Just using your production numbers, that's about EUR150 million of OpEx, just implied by the differential and stable production versus what you achieved in 2013. Given that '14 is going to be similar to '13 in terms of production volumes, are we expected to believe that will get EUR150 million of OpEx savings in this year or thereabouts? Is that how we should be looking at it?

Marek Jelinek - *New World Resources Plc - CFO*

Yes, we are saying -- or we are targeting EUR65 a ton this year plus -- and this is excluding Paskov -- the Paskov operation for one year adds about EUR3 a ton, so that's EUR68, yeah.

Mayan Grater - *Black Diamond - Analyst*

Understood.

Marek Jelinek - *New World Resources Plc - CFO*

And when we say -- when we say EUR60, that's a run rate which we are planning to achieve at the end of 2014, so that it's the average number for 2015.

Mayan Grater - *Black Diamond - Analyst*

So your average number could be anywhere between the mid-70s down to EUR60, basically, for the year?

Marek Jelinek - *New World Resources Plc - CFO*

No, the average number should be EUR68, including Paskov, in 2014.

Mayan Grater - *Black Diamond - Analyst*

Understood. Understood. Understood, that's helpful. And then the last question I had was just in terms of the bigger picture kind of pricing trends in Central Europe, you mentioned thermal coal has been impacted by US -- well, imports from the US, because the shale gas market in the US Can you give us a bit more of a feeling for where you think long-term prices can go outside of the EUR108 and EUR57 per ton that you've used for your model purposes? I mean, as a management team, do you expect a bounce-back later in 2014, 2015, 2016? Or do you expect prices to remain at these depressed levels as the new norm, basically?

Gareth Penny - *New World Resources Plc - Executive Chairman*

I mean, I -- let me answer that. You know, these prices -- as Marek has said, we are using market consensus prices. So we don't have a different view. And we think it's much more -- we've always done it like this, so it's consistent with the way we did things in, you know, previous years. As Marek has said, the fact this entire curve has -- over the course of the last year for coking coal shifted down EUR45 means that this time a year ago we were using a very different set of projections than what we're using now. But I think it makes sense to use the continued methodology, and it would be inappropriate for us to start making up numbers that we thought, you know, we liked or disliked.

So we continue to use that, and that's what we're going to use going forward. This average EUR107 and EUR57 are the market consensus figures for the forward picture.

Mayan Grater - *Black Diamond - Analyst*

Sure. Gareth, I appreciate that. My question was more around, is there a management view on where prices could go. I understand what you need to use for the modeling purposes and consistency with previous years, but in terms of what your management base case would be versus the consensus base case?

Gareth Penny - *New World Resources Plc - Executive Chairman*

I think this is our base case. And the reason it needs to be is that, you know, I think with too many mining companies -- and I don't think we're an exception -- there has been a view that the world is going to change tomorrow. And it means that you don't do what you need to do when you need to do it.

And what we have to do with this business is get our costs down. I mean, you've got the maths, basically. If we can get down to the low 60s, you add on the SG&A, you're looking at high 60s, call it EUR70, you add on, you know, EUR10 per ton or close to that in terms of CapEx, you're at EUR80, so you've got a total cost of about EUR80. This is excluding, obviously, any financing cost.

You do the simple maths on the, you know, 50% at EUR57-odd and 50% at EUR107, and you get to a selling price of around EUR80, EUR82, then you're basically going to break even at the consensus pricing pre-financing. I mean, it's not complex.

And that's the discipline and the thinking that we've got to bring into the company to make people realize that what we're aiming for here is a business that can wash its face, you know, on the current price curves. If the market improves well, then, you know, it's a different discussion. But at this stage, you know, waiting for Godot isn't what we're doing.

It's actually saying, we're going to make this business -- leaving aside the question of how we restructure the balance sheet so that actually, you know, we don't have the kind of pressure that we've got now in terms of the financing, if we can get this business to cover its other costs at current price levels and those that the market are projecting forward, then you've got, you know, a basis for an ongoing business.

Mayan Grater - *Black Diamond - Analyst*

Understood. Appreciate that. Thank you.

Operator

Thank you. Our final question today comes from Andrei Rodzianko from Black River. Please go ahead.

Andrei Rodzianko - *Black River - Analyst*

Good morning. My first question is just on the cash cost per ton. Can you give some comment in terms of how you expect it to behave relative to the fourth quarter on a quarterly basis? Should we be looking at that as kind of a new, you know, level as if we're going to stay at and move down gradually? Or is there going to be some volatility, given the mining plan that you have for the year?

Marek Jelinek - *New World Resources Plc - CFO*

Hi, Andre. I don't really want to get into quarterly forecasting. Even a year is a pretty short period of time in a deep underground mine. You know, we have a budget which targets an average annual cash cost number, and we talked about that.

Andrei Rodzianko - *Black River - Analyst*

Okay. And my second question is the CapEx. So in 2013, I guess you managed to come in at EUR100 million, and I believe -- was it EUR10 million of that was for Debiensko? Of the plan for 2014, is there anything in there for Debiensko? Or is that all going to be maintenance on the existing mines?

Marek Jelinek - *New World Resources Plc - CFO*

There is a small number for Debiensko. It's about EUR4 million. And it really deals with the ongoing feasibility work.

Andrei Rodzianko - *Black River - Analyst*

Thank you.

Gareth Penny - *New World Resources Plc - Executive Chairman*

I just think, to be clear, that's not a number that's down. It's actually about the same number as last year, because I think the figure you quote of 10 was the total Karbonia, which included work on other things like Morcinek and Frenstat, other new projects. So, you know, we continue to have in our budget a certain amount for future growth projects like Debiensko.

Andrei Rodzianko - *Black River - Analyst*

So is that number staying similar to the EUR10 million we saw last year altogether?

Gareth Penny - *New World Resources Plc - Executive Chairman*

Yes, it's a little bit down.

Andrei Rodzianko - *Black River - Analyst*

All right. Thank you.

Gareth Penny - *New World Resources Plc - Executive Chairman*

Okay, can we wrap up, then, everyone on the call? And can I just firstly thank you all for being here? I mean, to summarize, it's obviously been an exceptionally difficult business. I mean, if you'd said this time last year we were going to see a market that declined 22% and 24% for our major products, I mean, I think generally the consensus was that we'd reached the bottom of the market and from here on it was up. And clearly that hasn't played out.

And against that backdrop, we've had to implement a whole suite of measures that were within our control, which -- you know, as I look back on 2013, I think we can take some pride at the efforts of management and its ability to actually deliver on what it said it was going to, whether it was EUR100 million liquidity sale of OKK, extensions of ECA, agreements with unions, MOUs with governments on Paskov and the like. And clearly that trend has to continue.

As I said, you know, a few minutes ago on this call, we can't bank on anything other than current price levels and market consensus, forward prices, however depressed those may seem to be. We've got to make this business work now at these levels, and that means we've got to be realistic about what reserves actually can be mined at these levels.

It means we've got to be realistic about the life of mine that lies ahead of us. It means we have to have constructive discussions and come to an appropriate outcome with all the stakeholders in our business, in terms of the capital side of the business, and it means we have to continue with the restructuring at OKD of those operations there to make sure that they are robust.

And at this stage, I can say I think there's -- those discussions across all those dimensions are progressing in the right way. I think there is a very high level of understanding and appreciation that this is not somehow OKD or NWR on its own in this thing. I think this is an industry-wide phenomenon. It's interesting to see BHP closing mines in Australia. I mean, you know, who would have thought that was going to be happening?

It's interesting to see Rio's, you know, coal segment coming down from 27% of its earnings to two. So we are not on our own in this. But at the end of the day, this is all going to be about what measures each individual company takes to address what is clearly an exceptionally difficult set of market circumstances.

That's what we focused on as a management team, and, you know, the commitments that we -- or the targets that we set out on today's call, 9 million to 9.5 million tons, 55% to 60% coking, average cost EUR65, trending down to EUR60, these are all things that we fully intend to deliver on over the course of the year, and we will keep you posted appropriately on a quarterly or half-yearly basis on these initiatives, or obviously more frequently as required from a regulatory point of view on things like the capital restructuring.

So if I can thank you all for being on the call and look forward to chatting again in the not-too-distant future.